MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BEC1614 – MICROECONOMICS

(All sections / Groups)

11 OCTOBER 2017
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 4 questions only.

2. Attempt **ALL FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

A. A petrol station very near to a professional football stadium allows people to parks cars on its lot to make money on the game days. Last year it charged $4.00 per car and a total of 1000 cars were parked. This year it raised the parking charges to $5.00 per car and a total of 850 cars were parked. Did the station owner make a good economic decision in raising the parking prices? Explain.

(7 Marks)

B. Using supply-and-demand diagrams, show and explain the effects of the following events on the price of VCD and the quantity of VCD sold. For each event, identify which of the determinants of demand or supply is affected, how it influences demand or supply, and what happens to the equilibrium price and quantity.

i. The price of a VCD burner falls. **(3 Marks)**
ii. Workers who make VCDs get a pay raise. **(3 Marks)**
iii. Producers introduced new low cost technologies in their VCD production plants. **(3 Marks)**
iv. Consumers' incomes increase and VCDs are normal good. **(3 Marks)**

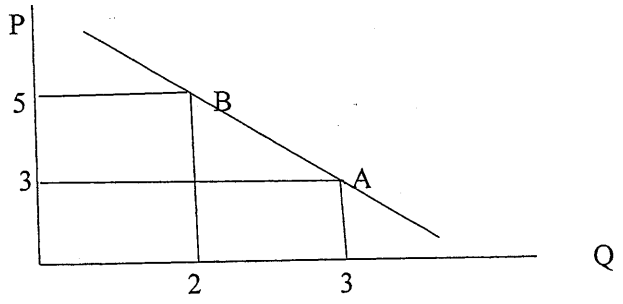
C. If the price of a magazine increases from $5 to $7 and the quantity demanded of the magazines decreases from 10 million per month to 8 million per month, using the midpoint method, what is the price elasticity of demand? Show your work. Is the demand elastic, inelastic, or unit elastic? **(3 Marks)**

D. Explain how increasing opportunity costs are reflected graphically in the production possibilities curve. How would the curve appear if opportunity costs were constant? Illustrate your response with diagrams. **(3 Marks)**

[TOTAL 25 MARKS]

QUESTION 2

A. Price and quantity of pineapple are given in the vertical and horizontal axis respectively. Based on the diagram below answer the followings.



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i. Calculate the amount of revenue the seller would receive if the price is set at RM3. **(2 Marks)**

ii. Calculate the price elasticity of demand for pineapples. **(2 Marks)**

B. Explain the income and substitution effects and use the concepts to describe what happens when the price of a product decreases. **(6 Marks)**

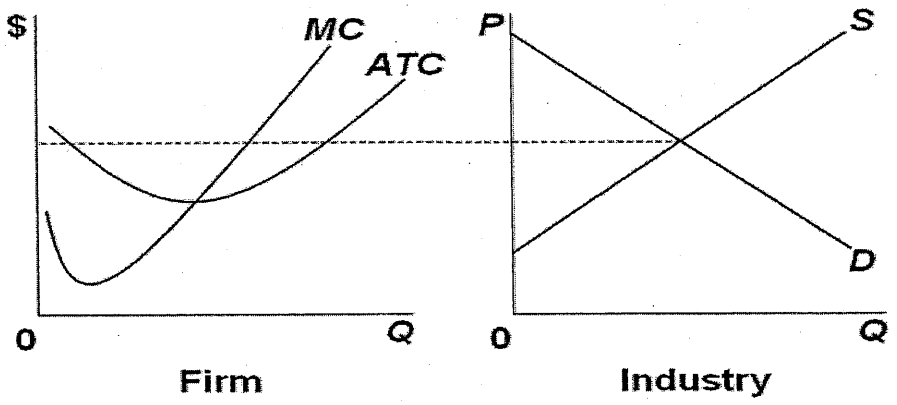
C. Consider the following policies, each of which is aimed at reducing health risk by reducing the consumption of Burgers. Illustrate each of these proposed policies in a supply and demand diagram of the markets for burgers.

i. A price floor on burgers **(3 Marks)**

ii. A Tax on burger consumers **(3 Marks)**

iii. A tax on burger producers **(3 Marks)**

D. Consider the two graphs below. First graph represents a typical firm in a purely competitive industry. Second Graph represents the supply and demand conditions in that industry. The dashed horizontal line represents the current market price for firms and for the industry. In the long run, what will happen to price, profit, the supply curve, and the number of firms in the industry? **(6 Marks)**



[TOTAL 25 MARKS]

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QUESTION 3

A. Explain the Relationship between Marginal Cost and Average Total Cost.

(5 marks)

B. Assume a firm has fixed costs of RM80 and variable costs as indicated in the table below. Complete the cost table. **(12 Marks)**

Total product	Total variable cost	Total Cost	AFC	AVC	ATC	MC
0	RM 0	RM 80				
1	110	190				
2	150	230				
3	180	260				
4	220	300				
5	270	350				
6	340	420				
7	440	520				

C. Do you think a firm under the monopolistic competition can make profit? Diagrammatically show a profit of a firm in the monopolistic condition in short run. **(8 Marks)**

[TOTAL 25 MARKS]

QUESTION 4

A. Describe the source of tension between cooperation and self-interest in a market characterized by oligopoly. Use an example of an actual cartel arrangement to demonstrate why this tension creates instability in cartels. **(8 marks)**

B. Why a monopoly does not have a supply curve? Diagrammatically show and explain the profit maximizing level of output and the price of a monopolist. Show the deadweight loss of the monopolist. **(12 Marks)**

C. Explain under what condition a perfectly competitive firm shut down temporarily and under what condition the perfectly competitive firm exit the market. **(5 Marks)**

[TOTAL 25 MARKS]

End of Paper